

**Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket No. D.T.E. 02-24/25
Responses to the Attorney General's Fifth Set of Information Requests**

Request No. AG-5-17 (Gas)

Please provide a complete and detailed description of each of the competitive bidding processes that the Company went to acquire its outside services and expert witnesses for this case. Please also provide copies of the RFPs and all of the responses to those RFPs.

Response:

The following outside consultant services were competitively bid and used by the Company in preparation of the Company's electric and gas rate cases as a result of an RFP process:

Performance Based Regulation (PBR):

The Company sent written RFP's to the following outside consultants:

- Navigant Consulting, Inc. (Please refer to the RFP at Attachment 1 AG-5-17 (Gas))
- Lexecon, Inc. (Please refer to the RFP at Attachment 2 AG-5-17 (Gas))
- EFI (Please refer to the RFP at Attachment 3 AG-5-17 (Gas))
- Please refer to the responses from Navigant Consulting, Inc., and Lexecon, Inc., at Attachment 4 AG-5-17 (Gas) and Attachment 5 AG-5-17 (Gas), respectively.
- EFI did not respond to the RFP.

Based on the responses to the written RFP's, the Company selected Navigant Consulting, Inc.

Depreciation Study:

The Company had verbal discussions regarding the Depreciation Study with James H. Aikman of Management Applications Consulting, Inc., and Earl M. Robinson of AUS Consultants. The nature of this oral RFP was to discuss the scope of services, project timeline and the estimated project costs.

- Management Applications Consulting, Inc. (Their response to the Company's oral RFP is included at Attachment 6 AG-5-17 (Gas))
- AUS Consultants (Their response to the Company's oral RFP is included at Attachment 7 AG-5-17 (Gas))

As a result of this oral RFP process, the Company selected Management Applications Consulting, Inc., to conduct the Depreciation Study.

Please refer to Mr. Collin's Exhibits, which are MHC-1 (Electric) at 59-62 and MHC-1 (Gas) at 46-47 for specific information regarding the competitive bidding process used by the Company. Also, please note that the above RFP information is applicable to both gas and electric.

Person Responsible: Mark H. Collin



Fitchburg Gas and
Electric Light Company

July 12, 2001

Mr. David A. Heintz
Senior Engagement Manager
Navigant Consulting, Inc.
200 Wheeler Rd, Ste 400
Burlington, MA 01803

Dear Mr. Heintz:

Requests for Proposals

Fitchburg Gas and Electric Light Company ("FG&E") is seeking expert advice in the development of a filing with the Massachusetts Department of Telecommunications and Energy ("MDTE") for performance based regulation ("PBR"). A regulatory PBR filing is planned for September 27, 2001 in conformance with MDTE 99-84 "Guidelines for Service Quality Standards ("SQS")," Order dated on June 29, 2001.

The Company

FG&E (the Company) is engaged principally in the distribution and sale of both electricity and natural gas in the City of Fitchburg and several surrounding communities. FG&E's service area encompasses approximately 170 square miles in north central Massachusetts.

Electricity is supplied and distributed by FG&E to approximately 26,100 customers in four communities. Natural gas is supplied and distributed by FG&E to approximately 14,200 customers in six communities.

FG&E is a wholly-owned subsidiary of Unitil Corporation, which is a registered public utility holding company under the Public Utility Holding Company Act of 1935. The Company's web site contains additional information (www.Unitil.com).

Regulatory Environment

FG&E is regulated by the Massachusetts Department of Telecommunications and Energy. In accordance with the MDTE's June 29, 2001 Order in MDTE 99-84, FG&E is required to file a PBR plan by September 27, 2001 encompassing the SQS described in the Order. The Company seeks to engage PBR consultants to assist management in the identification, evaluation and development of a PBR plan. Such a consultant should be prepared to begin the engagement on August 1, 2001, and be prepared to complete the PBR filing portion of the engagement by

Corporate Office

6 Liberty Lane West
Hampton, NH 03842

Phone: 603-772-0775
Fax: 603-773-6605

Email: corp@unitil.com

September 27, 2001. The regulatory process for the PBR filing is likely to extend for six more months from October 2001 to March 2002.

Schedule

1. Review of Literature/PBR Plans with special focus in Massachusetts	July 2001 and ongoing
2. Identification of Plan Alternatives	August 1 – 10, 2001
3. Evaluation of Alternatives	August 20 – 31, 2001
4. Development of Filing and Testimony	September 4 – 21, 2001
5. Regulatory Process	October '01 – March '02

Contents of Proposal

The Company is seeking assistance in all steps above. Project activities in steps 2 and 3 include:

- assessing the Company's risk tolerances
- developing PBR plan features that best meet the Company's objectives
- scenario development, and
- financial evaluation of scenarios.

A fixed fee is encouraged for these steps. Please specify your assumptions.

Consultant involvement is also desired in steps 4 and 5, Development of Filing & Testimony and Regulatory Process. The consultant may be required to assist the Company in the preparation of written evidence and IR responses and will be considered for witness testimony in support of the Company's Filing. In particular the Company seeks an expert to serve as a policy witness. Please submit a per diem rate for these steps.

Some of the significant issues to be addressed by the Company in the design of the PBR plan include:

- appropriate sharing of risk between shareholder and ratepayer
- potential accounting issues, and
- incentive mechanisms for non-revenue producing capital expenditures.

The proposal should include:

- an outline of the firm's approach to PBR design
- proposed team members, qualifications and experience of each
- experience in PBR design

- experience before regulatory commissions including as an expert witness. Please note if experience is before the MDTE.
- names and contact information for three gas or electric utilities or regulatory bodies that you have assisted
- fee structure, disbursements, treatment of travel time, etc.
- a fixed fee for steps 2 and 3, and
- per diem rate for steps 4 and 5.

Due

Responses will be considered if received on or before July 26, 2001 and will be received by:

Stephen J. Curran Director, Financial Regulation Unitil Service Corp. 6 Liberty Lane West Hampton, NH 03842	Fax: 603-773-6683 Email: curran@unitil.com <i>Use of email is encouraged</i>
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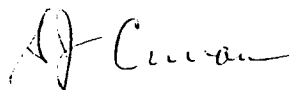
The consultants will be evaluated and a selection made on or about July 31, 2001.

Contact

The undersigned will be available to respond to questions/discuss assumptions during business hours on July 17-19, 2001 or at another time at your arrangement, and may be contacted at 603-773-6483.

The Company reserves the right to select all or part of a proposal or not to select any proposal at its sole discretion.

Sincerely,



Stephen J. Curran
Director, Financial Regulation



Fitchburg Gas and
Electric Light Company

July 12, 2001

Ms. Susan F. Tierney
Principal and Senior Vice President
LEXECON INC.
One Mifflin Place
Cambridge, MA 02138-4907

Dear Ms. Tierney:

Requests for Proposals

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Stephen J. Curran Director, Financial Regulation Unitil Service Corp. 6 Liberty Lane West Hampton, NH 03842	Fax: 603-773-6683 Email: curran@unitil.com <i>Use of email is encouraged</i>
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Sincerely,



Stephen J. Curran
Director, Financial Regulation



Fitchburg Gas and
Electric Light Company

July 12, 2001

Mr. Lawrence R. Alexander
Vice President & Director, Energy Division
EFT
530 Atlantic Avenue
Boston, MA 02210

Dear Mr. Alexander:

Requests for Proposals

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Stephen J. Curran Director, Financial Regulation Unitil Service Corp. 6 Liberty Lane West Hampton, NH 03842	Fax: 603-773-6683 Email: curran@unitil.com <i>Use of email is encouraged</i>
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Sincerely,



Stephen J. Curran
Director, Financial Regulation



August 8, 2001

Mr. Mark H. Collin
Vice President and Treasurer
Unitil Corporation
6 Liberty Lane West
Hampton, NH 03482-1720

Dear Mark:

At your request, Navigant Consulting, Inc. ("NCI") is pleased to present this letter proposal to Unitil Service Corporation ("Unitil") to assist in the development of a Performance-Based Ratemaking ("PBR") plan and filing for Fitchburg Gas and Electric Light Company ("FG&E").

We understand Unitil is seeking expert counsel and assistance in developing and reviewing certain aspects of FG&E's PBR application to the Massachusetts Department of Telecommunications and Energy ("MDTE"). We are confident that NCI can fully satisfy FG&E's needs through a combination of broad-based strategic advice and specialized regulatory insights necessary to properly evaluate the application of PBR concepts to its future gas and electric operations.

Our professional staff has extensive issue-oriented and "hands-on" experience with both the design and implementation of PBR mechanisms and utility operations. We have conducted many similarly structured projects for energy companies and are very comfortable with the requirements that you delineated during our conversations and in Unitil's RFP.

PROPOSED SCOPE OF WORK

We view that our work effort in this project can be categorized into two interrelated phases. The first phase consists of our working closely with FG&E's staff to establish the most appropriate PBR mechanism for its future gas operations, and possibly explore the implications of a similar PBR mechanism for future electric operations. The second phase consists of preparing expert testimony in support of FG&E's proposed PBR plans.

NCI's fundamental premise behind its expected work effort is that FG&E will adopt a price cap approach to PBR, in view of the plans of other gas utilities in Massachusetts and the preferences articulated by the MDTE in its past decisions on the topic.

The following discussion describes the nature of the work effort we envision to assist FG&E in developing a well-conceived and supportable PBR Plan.

Mr. Mark H. Collin
August 8, 2001
Page 2 of 5

Phase 1 – Establish FG&E's PBR Framework and Elements

NCI will provide high-level, issue-oriented assistance to FG&E staff to conduct the following activities:

- Develop the theoretical and conceptual underpinnings of FG&E's PBR Plan, including the benefits of PBR compared to traditional cost-based regulation.
- Review the potential financial impacts of PBR on FG&E's financial performance.
- Analyze the framework and individual elements of FG&E's PBR Plan, and propose a preferred regulatory presentation and implementation strategy.
- Assist in the development of, and actively participate in, a presentation to FG&E's Senior Management Team that explains the basis for its PBR Plan and the reasons why the preferred PBR approach is most supportive of FG&E's risk profile and operational conditions.

Phase 2 – Prepare Expert Direct Testimony

- We understand FG&E desires the following specific deliverables in this phase of the engagement:
 - Gas PBR Plan document
 - Gas PBR supporting expert testimony
 - Electric PBR Plan document
 - Electric PBR supporting expert testimony
- We will prepare and file expert direct testimony and exhibits (as appropriate) in FG&E's upcoming regulatory proceedings. We envision our testimony will discuss and support the conceptual underpinnings of FG&E's PBR Plan, together with the necessary industry-wide perspectives to demonstrate its reasonableness.
- We will design, draft, and discuss expert testimony that would include the rationale and detailed support for each of the various elements of the PBR mechanism, to ensure compatibility with prior MDTE decisions, and to represent each Plan as appropriate for FG&E, fair and balanced for its customers, and representative of the goals and objectives in the energy industry of its suppliers and regulators.
- We will complete each PBR Plan and expert testimony in coordination with other FG&E witnesses, its other rate case filings, and other relevant issues, and specifically include the explicit ratemaking treatment of any SQI non-performance penalties in an annual/regular review.

Mr. Mark H. Collin
August 8, 2001
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Post-Filing Support

As required, we will provide the following services to FG&E in support of its PBR Plans before the MDTE:

- Provide ongoing support for the prefiled testimony as expert witness during FG&E's rate proceeding;
- Provide analytical and/or testimonial support to rebut positions advocated by other parties;
- Assist FG&E in preparing responses to data requests and other informational requests; and
- Assist FG&E in preparing the technical aspects of its legal briefs and reviewing the briefs of other parties.

PROJECT TEAM

It is NCI's practice to assign a fully experienced team to projects where the scope of work involves critical and complex planning, operational, and regulatory issues. We believe our consulting staff has the appropriate levels of expertise and related experience and judgment to be fully responsive to FG&E's expected needs. Our specific project team will comprise the following senior staff members, or some combination thereof, based on further discussions with you to finalize our working arrangement and project scope, should we be selected to assist FG&E.

- ***Russell A. Feingold*** is a Managing Director of NCI and heads its Regulation & Litigation Support Practice Group. He will be the Engagement Director for this project and will have primary responsibility for ensuring the overall success of the project and contact with senior management of the Company. Mr. Feingold has advised clients in matters pertaining to costing and pricing, competitive market analysis, regulatory planning and policy development, gas supply planning issues, strategic business planning, merger and acquisition analysis, corporate restructuring, new product and service development, load research studies and market planning. Mr. Feingold has testified extensively (including in Massachusetts) on the costing and pricing of unbundled transportation and ancillary service offerings and on gas supply planning and procurement issues related to the deregulation of the natural gas industry. As part of his responsibilities, Mr. Feingold has directed projects dealing with PBR research, evaluation, design, and implementation of PBR plans for electric and gas utilities.
- ***Jack V. Winter, Principal*** will work closely with Mr. Feingold and will lead our efforts dealing with Service Quality Standards issues. Mr. Winter has provided

Mr. Mark H. Collin
August 8, 2001
Page 4 of 5

direct PBR program input, expert testimony, and support for specific programs in regulatory jurisdictions including Massachusetts, Rhode Island, and the Canadian province of Ontario. Mr. Winter has also been directly involved in the analysis, development, and implementation of specific PBR mechanisms in Arkansas, Indiana, Minnesota, and Oklahoma. His engagements have ranged from review, initial analyses, and planning, to full development and support of detailed PBR programs, measures, and incentives.

Finally, as appropriate, other NCI consultants will participate in the project to provide ongoing specialized support.

PROPOSED BUDGET

Fees for the services of NCI are based upon the time spent on the assignment by our professional staff at the established billing rates for the individuals involved. In addition to fees for services, expenses of professional staff (e.g., transportation, hotel, meals and telephone) while on assignment will be billed to you at our actual cost.

To complete the scope of services delineated above, excluding any post-filing support, we estimate that our professional fees will be approximately \$105,000 - \$113,000. Expenses for NCI staff will be passed through to FG&E on an as-incurred basis. For planning purposes, expenses typically amount to 15 percent of professional fees. Our prices do not include sales, use, excise, gross revenue, or similar taxes. Such taxes, if applicable to all or any portion of this assignment, will be charged in addition to fees and expenses.

Because of the difficulty in estimating the time required for post-filing activities, these costs have not been included in our fee estimate. They will be billed to FG&E based upon NCI's standard billing rates (presented below) of the individual(s) involved, as required. The stated rates assume NCI staff work 10-hour days on the project.

NCI Staff Title	Hourly Billing Rate
Managing Director	\$320
Principal	\$265
Senior Engagement Manager	\$240

Mr. Mark H. Collin
August 8, 2001
Page 5 of 5

PROPOSED TIME SCHEDULE

We are prepared to begin this project immediately upon FG&E's acceptance of this letter proposal. With the rather tight regulatory schedule for FG&E's rate filing, it is *critically* important that NCI's project team begin its work immediately. In this regard, our staff resources are available to start the project with a kick-off meeting in Unitil's offices on August 9, 2001.

This meeting would include discussions of project scope, deliverables, and deadlines, critical path tasks, assignment of responsibilities between FG&E and NCI, and broad discussions of FG&E'S regulatory and financial objectives. Also, requests for information and scheduling of further meetings should be discussed at that meeting

It is my sincere hope that this letter conveys to you NCI's commitment to assist Unitil in this important assignment. I look forward to working with you and other senior staff of the Company. If you should have any questions concerning our proposed working and fee arrangement with Unitil, or require any further detail or restructuring of our expected work effort, please do not hesitate to contact me at (781) 564-9655, or on my cellular phone at (412) 596-4987.

Sincerely,



Russell A. Feingold
Managing Director

Accepted by: 

Name: MARK H. COLLIN

Title: TREASURER

LEXECON

ONE MIFFLIN PLACE
CAMBRIDGE, MA
02138-4907

617 520 0200 PHONE
617 578 3524 FAX
WWW.LEXECON.COM

July 30, 2001

Stephen J. Curran
Director, Financial Regulation
Unitil Service Corporation
6 Liberty Lane West
Hampton, NH 03842

Dear Mr. Curran:

I am writing in response to the Request for Proposals ("RFP") that you issued on July 12, 2001, in which you described Fitchburg Gas & Electric Company's ("FG&E") interest in engaging a consultant to provide expert advice in the development of a filing with the Massachusetts Department of Telecommunications and Energy ("MDTE") for performance-based regulation ("PBR") for FG&E.

On behalf of my colleagues at Lexecon, I am pleased to send you this proposal of how we could provide services in support of FG&E's project to design and support a PBR filing before the MDTE.

Background: FG&E PBR Rate Design Project

Based on our review of the RFP, we understand that FG&E seeks consulting assistance to perform the following tasks:

- | | |
|---------------------------------|---------------------------|
| 1. Review PBR literature | July 2001 and ongoing |
| 2. Identify plan alternatives | August 1 - 10, 2001 |
| 3. Evaluate alternatives | August 20 - 31, 2001 |
| 4. Develop filing and testimony | September 4 - 21, 2001 |
| 5. Support regulatory filings | October 2001 - March 2002 |

FG&E seeks support through a fixed-price contract for Steps 2 and 3, and through a time-and-materials basis for Steps 4 and 5.

Stephen Curran
UNITIL/Fitchburg Gas & Electric Light Department
July 30, 2001
Page 2

FG&E is looking for assistance from a firm with experience in utility regulation, incentive-based rates; analysis of implications of different rate design strategies on Company sales, revenues and earnings; expert witness and other regulatory support; and participation as part of the FG&E rate team. In essence, we understand that FG&E needs support in the research, analytical, communications, and intellectual work that is involved with establishing a PBR proposal that meets the Company's financial needs, provides high quality service to customers, and satisfies the MDTE's regulatory objectives.

Lexecon Approach - Assisting FG&E's PBR Rate Design Project

Lexecon proposes to support FG&E in all aspects of its PBR rate design project.

Step 1 - Review of the PBR literature

In order to assist in the design of and regulatory support for the Company's PBR rates, it would be useful to collect information on PBR designs being used by other companies and in other jurisdictions. We assume from the RFP that FG&E has begun the process of collecting information on various PBR plans and approaches, and Lexecon also has some information on PBR approaches. We propose to meet with FG&E to determine the extent of information already obtained by the two companies, and then supplement this as appropriate through additional literature research. Depending upon what FG&E has already done to summarize its findings, Lexecon proposes to draft a brief memorandum to describe the different approaches, with the purpose of the memorandum being aimed at (a) assisting in the design of a PBR for FG&E, and (b) supporting the Company's PBR filing (including testimony) at the MDTE. (Additionally, the memo could be useful in providing a context for work that is necessary for FG&E's eventual compliance with the requirement in D.T.E. Docket 99-84 to file a report that includes information on national, regional and statewide performance data potentially available for a data base on service quality data.)

Steps 2 and 3 - Identification and Evaluation of Alternatives

The heart of the analytic work necessary for the PBR design projects are the identification and evaluation of PBR plan alternatives, so that FG&E's (and UNITIL's) management can decide what PBR best suits their objective to obtain regulatory approval for a PBR that meets the Company's needs and its customers service goals.

Stephen Curran
UNITIL/Fitchburg Gas & Electric Light Department
July 30, 2001
Page 3

We assume that FG&E has already done a considerable amount of preparatory work at this point in time, and has formulated important elements of its PBR approach (including the Company's underlying financial objectives, its general tolerance for risk of various types, and financial tools to examine alternatives from a quantitative point of view). We understand further that FG&E is looking for assistance in identifying alternative PBR strategies, methods and rate designs, and then in helping FG&E evaluate them for decision by management.

Based on these assumptions, Lexecon proposes to provide strategic advice to FG&E in these areas of assistance. Lexecon provides tailored assistance to companies on matters such as these, based on interaction with the company to examine which PBR approaches afford an appropriate basis for meeting both the company's financial requirements as well as sound public policy and customer-service principles.

Therefore, over the month of August 2001, Lexecon proposes to:

- meet with relevant Company staff to learn about the status of preliminary work already undertaken by FG&E/UNITIL;
- discuss the options explored to date;
- identify other approaches;
- comment on their conceptual strengths and weaknesses (from a financial/administrative/regulatory/other point of view);
- identify a limited set of PBR approaches and financial/regulatory scenarios for FG&E/UNITIL to run through their financial models;
- provide assistance in shaping that modeling to the extent that such support is needed by FG&E and UNITIL;
- help FG&E/UNITIL identify the criteria to use in evaluating these alternative strategies;
- help the Company understand the risks and opportunities associated with various PBR approaches;
- assist in shaping the financial analyses that FG&E will conduct; and
- assist in preparing decision memoranda/presentations for Company management so that FG&E and UNITIL can decide what PBR approach they want to use in their September filing at the MDTE.

Due to the time limitations for the project as set out in the RFP, Lexecon would provide minimal assistance on accounting issues; would not carry out collection of financial data or service quality data; or conduct financial modeling. Lexecon will provide advice and assistance on these issues to

Stephen Curran
UNITIL/Fitchburg Gas & Electric Light Department
July 30, 2001
Page 4

those at the Company who are responsible for performing these accounting, data collection and data modeling tasks.

Lexecon proposes to interact with the FG&E/UNITIL team through a combination of face-to-face meetings, telephone meetings and phone calls, and electronic communications and data exchanges. Because of prior out-of-area time commitments of Lexecon staff during August, many of these meetings will need to take place by telephone.

Steps 4 and 5 - Development of and Support for Filing and Testimony

After assisting in the analysis, design and communications of the PBR alternatives (in Steps 2 and 3), Lexecon proposes to assist the Company by providing regulatory support for the PBR filing. This assistance would include:

- meeting with Company staff and attorneys to discuss strategies for communicating the Company's PBR approach to the MDTE (and others);
- participating as appropriate in internal and external meetings to communicate the PBR approach with different audiences (e.g., senior management, regulatory, customers, investor representatives);
- preparing written documentation of the PBR, to be used as part of or as foundation for PBR filing at the MDTE;
- providing written expert witness testimony as appropriate, including on regulatory policy issues;
- responding to interrogatories as appropriate; and
- otherwise supporting the Company's PBR filing at the MDTE.

Relevant Experience

Lexecon is a firm with experience in utility regulation, incentive-based rates; analysis of implications of different rate design strategies on Company sales, revenues and earnings; expert witness and other regulatory support; and participation as part of companies' internal teams.

There are two aspects of Lexecon's client work that are especially relevant to FG&E's request for assistance in developing a PBR strategy. One is our work in rate strategy, design, PBR analysis, regulatory policy, and business strategy; the second is assisting various companies in complex tasks that involve contributions from a variety of different people on economic and regulatory topics of critical importance to the company's long-term financial success.

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Rate Strategy: Lexecon has worked with several companies and organizations on similar types of rate strategy projects. Each of these was a non-traditional "rate case" type of project, and required creativity, sound grounding in economic principles, and understanding of innovative rate approaches (and their positive and negative features from both a company's point of view and a regulator's point of view). For example, for PPL we were involved in assisting the company in analyzing, designing, and defending its rate unbundling and rate redesign plan during the rate restructuring process in Pennsylvania. Another example is our work for Florida Power & Light, where we have been engaged to assist the company in developing a performance-based rate strategy for its regulated business. These engagements involved rate theory, rate design, revenue and financial analysis, studies of impacts of price elasticity of demand, interactions with company teams, presentations to senior management, and expert witness support on all of these topics.

Another example of Lexecon's PBR work was for a state government agency, the Massachusetts Division of Energy Resources, where we analyzed an incentive rate design proposal offered by Boston Gas Company. This work involved explaining PBR theory to various expert and non-expert audiences, researching various structural features of PBR approaches, analyzing the company's rate filings in terms of its ability to share risk and reward among shareholders and ratepayers, providing expert witness support, and negotiating with the company and other stakeholders in collaborative workshop meetings on the rate design proposal.

Lexecon was also involved a number of projects where we were asked to assist in rethinking and reshaping the company's cost-recovery approach. For Houston Light & Power, we helped formulate (a) specific regulatory policy proposals (including regulatory changes that would grant HL&P pricing flexibility to meet competitive pressures) to address the potential for uneconomic bypass and the financial uncertainty surrounding potentially stranded investment, and (b) an incentive-based regulatory regime the company could put before the PUC, aimed at creating better incentives for efficiency and innovation. For Florida Gas Transmission, we were asked to file testimony in the first interstate gas pipeline rate case to propose nontraditional ratemaking before the FERC. For the Interstate Natural Gas Association of America, we developed a Pipeline Producer Price Index designed to track specific pipeline costs rather than more general producer costs; this was the first indexed rate proposal suitable for the natural gas transmission industry as a whole and formed the basis for INGAA's filing on

Stephen Curran
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behalf of the natural gas pipeline industry in the FERC's generic alternative ratemaking docket.

Project Assistance: A common thread in these and most other consulting projects Lexecon performs for clients is our hands-on participation as a member of the client team. Lexecon has assisted these clients by providing expert staffing, dedicated and knowledgeable economic and regulatory policy support, comprehensive research capabilities, "extra hands," reality checks, brainstorming, written and oral presentations to senior management and external parties, attention to detail, strategic thinking, and so forth. We would provide this same varied and deep level of support tailored to FG&E's needs as they evolve over the course of the project.

Staffing

Typically for projects like this, Lexecon assigns a team of appropriate staff that actually might change over time depending upon the client's own resources and requirements.

Given the quick timeline for your project and availability of senior Lexecon staff, we propose that I would be the lead, along with appropriate limited senior assistance from some combination of Janet Besser, Adam Jaffe, and Scott Jones. Each one of these principals offers special knowledge, experience and capabilities that we think would be relevant to FG&E's project at different stages.

As you know, I am a former utility regulator (at the Massachusetts Department of Public Utilities, the predecessor the MDTE) and have considerable experience as a consultant in working with private clients and government decision-makers on electric industry economics and regulatory policies, including traditional cost-of-service regulation (and its problems) and policies designed to create incentives for efficient private decision-making. I have extensive experience with working with companies on complex regulatory problems that are important to their business objectives, and in providing strategic advice as well as expert witness support.

My senior colleagues are a combination of former regulators, public policy experts and economists. Janet is formerly chair of the MDTE, and has been personally involved in reviewing PBR proposals from telecommunications, gas, and electric companies and in working on consulting engagements involving PBR. Adam is a professor at Brandeis University and a PhD economist expert in designing pricing policies to create incentives for efficient

Stephen Curran
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behavior. Scott also is a PhD economist with deep financial and business experience relevant to ensuring the effectiveness of pricing policies.

While I would lead the team, Adam, Scott and Janet would be available to advise the project as needed. One or more of us would be available for consulting services and expert witness services (on economic and regulatory policy issues), as the Company and its attorneys see fit.

Additionally, the Lexecon team will include senior consultants and economists, analysts, researchers, and others to help support all aspects of the project. After further conversation with FG&E, we will settle on the initial members of the Lexecon team and expect to add any other staff as needed over the course of the project.

I have included resumes of Janet, Adam, Scott and myself, as well as for the following senior consultants and economists: Charles Augustine, Paul Hibbard, Amy Candell, and Stephen Makowka. These resumes indicate the experience of Lexecon personnel in appearances before various regulatory agencies, including the MDTE.

Compensation

Lexecon's proposal is broken into two parts: one, for those services covered under a proposed fixed fee approach; and the second for those activities covered under a time-and-materials basis.

For Steps 2 and 3, we propose a fixed price contract of \$75,000 for consulting services, with out-of-pocket expenses directly billed in addition. In light of the fluid scope of Steps 1, 4 and 5 of the project, we propose to be compensated on a time and material basis, using our normal billing rates. A copy of our current rate sheet is attached. For all steps (1-5), Lexecon would directly bill for any out-of-pocket travel expenses (including any lodging costs). Lexecon does not bill for travel time. Lexecon typically bills clients on a monthly basis for services rendered in the prior month.

If this proposal is acceptable to you, we would send you a draft engagement letter that sets forth the business terms of our work for FG&E.

References

The following references are for Lexecon work on matters related to regulatory policy and PBR:

Stephen Curran
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Paul Russell, Esq.
PPL
Allentown, Pennsylvania
610-774-4254

Marlene Santos
Florida Power and Light
Miami, Florida
305-552-2569

David O'Connor, Commissioner
Joanne McBrien, Policy Director
Division of Energy Resources
Boston, Massachusetts 02202
617-727-4732

If you have any questions, please don't hesitate to call me at 617-520-0229.

Sincerely,

Susan F. Tierney, Ph.D.
Senior Vice President

encl

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UNITIL/Fitchburg Gas & Electric Light Department
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LEXECON Inc.

Schedule of Fees

Effective January 1, 2001

	<i>Rate</i>
Dr. Tierney	\$475/Hr
Ms. Besser	\$375/Hr
Dr. Jones	\$500/Hr
Vice Presidents and Senior Consultants	\$290-375/Hr
Consultants	\$225-260/Hr
Researchers/Analysts/Senior Analysts	\$150-210/Hr
Support/Computer Staff	\$75-190/Hr

Lexecon charges for professional time, certain uses of its computer system, and expenses. Expenses are billed at cost as line items.

This fee schedule is subject to adjustment from time to time with adjusted fees in no case exceeding the highest fee paid to Lexecon Inc. in connection with its retention on another matter. In certain instances, a flat monthly retainer fee is assessed. All amounts are in U.S. Dollars.



MANAGEMENT APPLICATIONS CONSULTING, INC.

2921 Windmill Road • Suite 4 • Sinking Spring, Pennsylvania 19608-1681 • 610/670-9199 • Fax 610/670-9190 • <http://www.manapp.com>

DTE 02-24/25 (Gas)
Attachment 6 AG-5-17
Page 1 of 5

October 30, 2001

Mr. Stephen J. Curran, Director
Financial Regulation
Unitil Service Corporation
6 Liberty Lane West
Hampton, NH 03842

Dear Mr. Curran:

In accordance with your request, Management Applications Consulting, Inc. (MAC) is pleased to submit this proposal to perform a book depreciation accrual rate study of the Fitchburg Gas & Electric Company's (the Company) depreciable electric, gas and common utility properties. The purpose of this study is to recommend revised depreciation accrual rates where appropriate and advise Company management of any and all factors relating to the fair and timely recovery of capital invested in depreciable electric and gas utility property.

SCOPE OF SERVICES

The services to be performed will include detailed analyses of depreciable electric, gas and common utility plant in service as of December 31, 2000. Once the Company's accounting records are closed at year-end 2001, we will update the depreciation study databases to year-end 2001. We will then apply the previously determined accrual rate parameters to those balances to develop accrual rates based on year-end 2001 plant. We expect the Company to furnish us the complete and correct history of plant additions, retirements, adjustments, year-end balances, etc., by primary plant account or subaccount for the past 20 years and preferably 30 years. The history of capital additions should be as near complete as feasible; i.e., from about 1900 or 1910 through 2000. These data are necessary as we typically analyze 30 years of data, e.g. 1970 to 2000, and it is quite likely some of the 1970 retirements and/or year-end 1970 account balances could be from 1910 vintage additions. We will also need Company removal cost and gross salvage history of the years 1986 to 2000 at primary plant account level. The plant data history need not be actuarial; i.e., retirements need not be vintaged or year-end account balances split to vintage survivors. Similarly, we do not ask that salvage be vintaged. However, inasmuch as the Company does maintain actuarial data, these data should also be provided to us and later updated to include 2001 activity.

We will also need from the Company an "official" listing of the year-end 2000 and 2001 plant account balances and the year-end 2000 and 2001 Accumulated Provision for Depreciation (the book reserve). The book reserve should be provided at the lowest plant level available; i.e., by primary plant account or subaccount, if possible.

Mr. Stephen J. Curran, Director Financial Regulation
Unitil Service Corporation

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October 31, 2000

We may also find it beneficial to get your engineers' assistance in estimating man-hours and equipment necessary to remove the major units of property within the significant Distribution primary accounts upon retirement. In that connection, it may also be necessary for Property Accounting to provide us with the surviving quantities of such major units of property. This salvage and removal cost information could be used to supplement the traditional analyses of the previously mentioned accounting history of salvage and removal cost. The foregoing may be required only if the normal accounting history of gross salvage and removal cost is deemed not representative of the future.

The analytical techniques to be employed shall be those generally recognized and accepted by the industry. The interpretation of analyses will be strengthened by communication with Company accounting, engineering, financial, operating and planning personnel.

Our findings will be presented to you on summary accrual rate schedules incorporated into a report containing descriptions of the analytical procedures and interpretations of the analyses performed relative to the various categories of investment.

The services to be performed shall be done in such depth as to be supportable before any regulatory body.

STUDY SEQUENCE

We intend to proceed with the depreciation study generally as follows:

1. An information request will be sent to you early in the study. The purpose of the questionnaire is to define the objectives of the study to Company accounting, engineering, financial, operating and planning personnel and to obtain authoritative first-hand information with respect to those factors which have had or may yet have some effect upon the service lives of the properties or their salvage value upon their final retirement. We will request written input from the questionnaire recipients regarding operating practices, maintenance and retirement policies, plant accounting policies, technological developments and expectations, expected future capital retirements, expected future expenditures which may prolong or shorten the life of properties, and any other factors which may have an influence on property lives, salvage and removal costs. Written responses to our request should be in our hands within about three weeks after distribution of the questionnaire.
2. A property tour/inspection should be made early in the project; we anticipate 1 ½ to 2 days time will be required. An inspection should include the Company's electric substations, gas take stations, some district regulator stations, industrial/commercial metering sites, service centers and any significant depreciable structures; e.g., office buildings. We request that the Company provide a knowledgeable "tour guide" and vehicle.

Mr. Stephen J. Curran, Director Financial Regulation
Unitil Service Corporation

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October 31, 2001

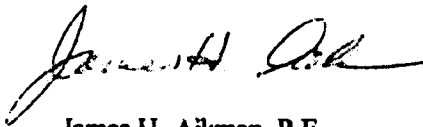
3. Statistical analyses of the historical activity, including cost of removal and gross salvage analyses, should be completed approximately four to eight weeks after we are provided the plant data.
4. An evaluation conference will be held in our offices shortly after completion of the analyses. The evaluation process considers all information gathered as a result of the inspections, questionnaire and the statistical analyses indications developed from the computer runs, including salvage and removal cost analyses. Representatives of the Company are welcome to attend.
5. The evaluation conference (Step 4) results in the recommendation of average service lives, dispersion characteristics (Iowa curves) and net salvage estimates.
6. Summary schedules of these preliminary findings and recommendations will be prepared and forwarded for review by you and whoever else may be appropriate. Following this review, we will draft a preliminary report and submit the draft to you for your review and comments.
7. Upon completion of the review of the preliminary report, we will finalize and reproduce the report in the quantity you request; the cost estimate anticipates the preparation of 10 copies.

MANPOWER AND COST ESTIMATES

The cost of performing a study such as this one is difficult to estimate due to the variables; however, we recognize your need for a quote. We estimate this study to require about 220 to 270 man-hours at an estimated cost of \$37,500. Living and travel expenses will be billed at cost; all other out-of-pocket expenses will be included in our expense fee which will be 3% of professional services in accordance with MAC's standard Terms and Conditions, attached. These estimates do not include services and expenses relative to regulatory proceedings, formal or informal.

We thank you for this opportunity to be of service and look forward to your authorization to proceed. In that regard, acceptance of this proposal may be indicated by signing and returning one copy for our files.

Respectfully submitted,



James H. Aikman, P.E.
Managing Consultant

ACCEPTED:


For: FITCHBURG GAS & ELECTRIC CO.

NOVEMBER 6, 2001
Date

MANAGEMENT APPLICATIONS CONSULTING, INC.
BILLING RATES

<u>CLASSIFICATION</u>	<u>HOURLY BILLING RATE</u>
Managing Consultant	\$160
Senior Consultant	\$145
Consultant	\$125
Associate Consultant	\$ 80
Technical Assistant	\$ 60
Word Processing	\$ 30

**Management Applications Consulting, Inc.
Billing Terms and Conditions**

Professional Services:

Charges for professional services will be at the standard hourly rates as shown on the attached schedule. Time charges will be made only while actually at work on the assignment and for the travel time during normal working hours, where applicable.

Out-of-Pocket Expenses:

In addition to the cost of professional services, travel, and living expenses while engaged on a project away from the home office, such as commercial travel fares, meals, lodging, telephone and rented automobiles, will be billed at cost. Use of a personal car to make a trip in your interest will be billed at the currently allowed IRS rate. Outside services or extraordinary expenses, when specifically authorized and incurred on your behalf, will be billed at cost. Other expenses such as telephone, reproduction, postage, freight, and data processing will be billed at 3% of professional service revenues.

Method of Billing:

Billings will be rendered monthly for the preceding month's services performed and expense incurred on your behalf. Invoices will be due and payable ten days after receipt. Our assignment may be interrupted or terminated at any time without further liability other than for the charges and expenses incurred up to the date of such interruption or termination.

Software Rights:

Any software developed in the course of this assignment will be considered confidential trade secrets and will become the property of MAC. If requested, a copy of this software will be provided to you for your exclusive use in conducting your own business. This software is not to be copied, except for archival purposes, nor is it to be distributed to any third party without the expressed written consent of MAC. MAC retains the sole rights to reproduce, copy, distribute, and license this software.

Earl M. Robinson, CDP
President & CEO

AUS CONSULTANTS
Utility Services
Weber Fick & Wilson Division
1000 N. Front St., Suite 200
Wormleysburg, PA 17043
(717) 763-9890
FAX: (717) 763-9931
INTERNET: <http://www.ausinc.com>
E-MAIL: erobinson@wfw-ausinc.com

December 3, 2001

FAX: 603-773-6683
Mr. Stephen J. Curran, CPA
Director, Financial Regulation
UNITIL CORPORATION
6 Liberty Lane West
Hampton, NH 03842-1720

Dear Steve:

In accordance with your request, I am pleased to provide this proposal to prepare a comprehensive depreciation study relative to **Fitchburg Gas & Electric Company's electric, gas and common plant as of December 31, 2000 (2001 if the data becomes available in time)**. During our telephone conversation you noted that much of the data is available on an electronic basis. Conversely, some of the data may be in manual form.

In any event, our firm has completed an extensive quantity of depreciation studies based upon data obtained via a variety of data sources, including mechanized accounting data via computer diskette or e-mail transfers and accordingly are prepared to work with your staff to successfully complete the required depreciation studies.

Scope of Project

We envision the scope of the project to (1) develop the various depreciation data bases through December 31, 2000 (2001 if applicable) from the company's historical service life and salvage records, (2) utilizing those historical records along with additional information inputs, prepare comprehensive depreciation study recommendations, and a written report; (3) provide expert testimony in support of the completed depreciation study, as and when required; (4) and to provide other required depreciation related assistance.

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Work Plan

Procedures utilized in the preparation of a depreciation service life study include the review and analysis of historical service life and/or salvage data to be utilized as a basic benchmark from which to develop prospective service life and salvage factors. Additional studies and considerations must be given to current, as well as anticipated events. Such events would include, but not be limited to, capital budgets, policy changes, technology impacts, and significant facility rebuilds and/or upgrades.

Immediately upon authorization to proceed, we will provide the company with a data request outlining various items including plant statements and schedules, budgets, long-range plans, etc., as well as detailed historical accounting records. Upon receipt of the initial historical accounting data (service life and salvage) from the company, we will verify the data for accounting control and commence initial historical analysis. Subsequently, we will schedule an on-site visit and interviews with management. Based upon our approach, our on-site tasks will include, but not be limited to, a general review of company CPR records and policies, clarification of unresolved accounting data questions, discussions with management concerning various depreciation methods and procedures available to develop depreciation rates, initial depreciation parameter indications, as well as any other concerns related to the depreciation study. While on site, we will meet with engineering and planning staff to discuss future plans and projects related to company's operating facilities, plus complete a physical plant inspection of a representative portion of the company's property.

Methods and Procedures

Typical analytical methods utilized include the actuarial and semi-actuarial methods dependent upon the availability of basis historical data. Accordingly, it is our current anticipation that the proposed study will likely incorporate the use of the actuarial method and possibly the semi-actuarial method to perform the historical analysis on your company's accounting data. The actuarial (Retirement Rate) method involves an analysis of property retirements to determine their age and frequency resulting in an observed life indication which is subsequently fit to standard Iowa Curves to estimate an overall average service life and average remaining life for each property group.

By comparison, the semi-actuarial (SPR) method will be utilized together with yearly balances and/or retirements in conjunction with each group's yearly gross additions and standard Iowa Curve characteristics to determine an estimated life characteristic for each property group.

In addition, location-type properties, such as Gas Storage Plants, Distribution and General Structures, etc. are routinely studied using life span/forecast methods along with the development of applicable interim retirement rates and probable retirement years to develop applicable depreciation rates.

AS

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Depreciation rates are typically prepared for each property account or sub-account maintained by the company. Further, additional depreciation rates may be developed for various sub-categories such as a specific type of plant. The development and application of depreciation rates can be applied using a variety of methods, procedures, and techniques dependent upon company goals and requirements, as well as applicable regulatory policies. The development the proposed depreciation rates would likely be based upon the application of the Broad Group/Average Remaining Life approach, however other approaches will be discussed with company management to provide an opportunity for management to access which basis its desires to use for the ultimate proposed depreciation rates.

Report Content and Completion Target

The results of the comprehensive study will be contained in a written report, which will contain our findings and recommendations with regard to recommended depreciation parameters and rates. Furthermore, the report will contain schedules developing the proposed depreciation rates, as well as the comparison and delineation of changes to depreciation expense vis-à-vis present and proposed depreciation rates. The reports will also contain a detailed narrative describing the factors considered in developing our depreciation proposal, plus will include detailed depreciation calculations used in developing the underlying service life depreciation parameters.

We are prepared to commence with the completion of the depreciation studies upon receiving authorization to proceed. We typically estimate that the study report drafts relative to a project of this scope can be scheduled for completion in approximately ten (10) to twelve (12) weeks subsequent to when the company can forward its historical accounting data, as well as other supporting documents to us. The collection of such data by company staff routinely requires several weeks or more to compile. Notwithstanding the above general time estimate, depending upon management's time requirements, we are prepared to adjust the schedule, as necessary to meet your needs.

Related Experience

As you are aware, the Weber Fick & Wilson Division of AUS Consultants - Utility Services specializes in the performance of various financial studies including depreciation, valuation, cost of service, and rate case exhibits for the utility industry. AUS Consultants provides a wide spectrum of consulting services through its various affiliated groups which include Utility Services, Valuation Services, ICR Survey Research, and Marketing Systems. The AUS affiliated operating units are staffed with professionals with a total of well in excess of 100 years of depreciation and valuation experience.

The logo for AUS Consultants, featuring the letters 'AUS' in a bold, stylized, blocky font.

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AUS Consultants - Weber Fick & Wilson Division, under the direction of Mr. Robinson, has extensive experience in completing comprehensive depreciation studies relative to all utility industries including gas, electric, water, wastewater, and telecommunications industries.

Specifically, relative to the gas industry, our depreciation project clients have included clients such as Bay State Gas Company, Northern Utilities, Inc. - Maine, Northern Utilities, Inc. - New Hampshire, Oklahoma Natural Gas Company, Southwest Gas Corporation, Paiute Pipeline Company, Canadian Western Natural Gas Company, Granite State Gas Transmission, North Carolina Gas Service, Northern Indiana Public Service Company, PG Energy Inc., Pennsylvania and Southern Gas Company, Providence Gas Company, and Southern Connecticut Gas Company.

Relative to the electric industry, our depreciation project clients have included clients such as New York State Electric & Gas Corporation, Northern Indiana Public Service company, Pennsylvania Power company, Potomac Electric Power company, Lockhart Power company, and Nantahala Power and Light Company.

We have completed many similar studies for telecommunications, water and waste water clients.

In conjunction with past studies, our firm has negotiated depreciation rates with various state regulatory agencies, FERC, and the FCC staff, and supported our proposed depreciation rates in regulatory hearings.

Professionals and Testimony

Relative to testimony, Mr. Robinson has testified extensively on the subjects of depreciation, valuation, and capital recovery. A complete list of his testimony presented in twenty (20) jurisdictions, as well as the client names, docket numbers, and subject matter, is contained on the Appendix to Mr. Robinson's professional qualifications. Numerous other studies have been completed and filed for which hearings were not held. He is a long-term member and participant of the AGA/EEI Depreciation Committee (currently the AGA Accounting Services Committee and EEI Corporate Accounting Committee). Further, Mr. Robinson is a founding member of the Society of Depreciation Professionals. He has served numerous positions within the organization such as Treasurer and President and is currently holding the position of Past President of the Society. Mr. Robinson is a Certified Depreciation Professional (CDP) with thirty (30) plus years of utility experience.

Gary D. Shambaugh, Executive Vice President, has nearly 30 years experience in the utility industry and is a recognized expert in the various financial rate making disciplines. Mr. Shambaugh has also testified numerous occasions regarding a wide variety of matters, including depreciation. Mr. Palko, an associate from AUS Consultants, is a Professional



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Engineer would has experience with regard to numerous disciplines including depreciation, rate base, valuation, and cost of service for various operating utilities.

Project Costs and Billing

Based upon the scope of the project, it is estimated that to complete the comprehensive depreciation study (in which company personnel would provide the basic historical records, as well as other general supporting data), development of depreciation rates, and a written report (five [5] copies) containing a summary of our findings and recommendations will require approximately ten (10) to twelve (12) calendar weeks subsequent to receipt of the company's data.

We estimate that the completion of the tasks involved in the study as well as prefiled written direct testimony, will require professional and clerical service aggregating \$16,500 for the company's electric property, \$11,000 for the company's gas property, and \$3,500 for the company's common plant property. The above cost estimates are based upon economies of scale that will be achieved by performing the studies on all three entities at one time. If depreciation studies were performed on an individual basis for each of the electric, gas and common plant properties, we would anticipate the aggregate cost to be significantly greater than quoted above.

In addition, out-of-pocket costs related to travel and living, postage, telephone, duplication, etc., are billed at cost which may aggregate in the range of five (5) to eight (8) percent of the professional and clerical fees. We will endeavor to minimize such costs to the extent possible.

Our standard billing practice is to bill for services on a monthly basis with invoices due and payable upon receipt. Our current standard billing rates for AUS professionals available to work on the project are as follows:

<u>Consultant</u>	<u>Hourly Rate</u>
E.M. Robinson	\$180.00
G.D. Shambaugh	180.00
S.D. Fogelsanger	135.00
D.A. Sheffer	135.00
Clerical	41.00

If you desire any additional data or information, please do not hesitate to contact me. Our goal is to develop long-term relationships with our clients and we strive to provide excellent service at a reasonable cost. I look forward to receiving your acknowledgment of our engagement to prepare the proposed study.

AUS

November 14, 2001
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Respectfully submitted,



EARL M. ROBINSON

EMR:sd
enclosures

ALS